

BILL # SB 1346

TITLE: loan originator licensing

SPONSOR: Weiers

STATUS: As Amended by Senate Commerce

REQUESTED BY: Senate

PREPARED BY: Steve Grunig

	FISCAL YEAR		
	2003	2004	2005
EXPENDITURES			
General Fund	\$-0-	\$426,400	\$411,300
REVENUES			
General Fund	\$-0-	\$2,010,000	\$105,000

FISCAL ANALYSIS

Description

The bill establishes a loan originator licensing program within the State Banking Department. A mortgage loan originator is a person whose job is to find borrowers for lenders, or who acts as a middleman between a lender and a borrower. The provisions of the bill include:

- Prohibiting a person from acting as a loan originator unless licensed.
- Requiring loan originators to pass a written exam and establishing a minimum exam fee of \$50.
- Establishing a \$250 application fee for loan originator licenses.
- Requiring a \$200 biennial renewal fee for loan originator licenses.
- Requiring the Superintendent to deposit all monies from license application, license renewal and exam fees into the General Fund.

In addition the bill establishes continuing education requirements for loan originators and mortgage brokers that must be satisfied before license renewal.

Estimated Impact

The bill would result in a net General Fund gain of \$1,583,600 in FY 2004 and a net General Fund decrease of \$(306,300) in FY 2005. The program will have a large number of applicants the first year who will pay exam fees and license application fees generating \$2,010,000 in new General Fund revenue in FY 2004. This new revenue will be partially offset by increased department operating costs of \$426,400 for a net gain to the General Fund of \$1,583,600.

In the second year, there will be only a few new loan originators entering the industry and no renewal fees paid (renewals are paid biennially). The JLBC Staff estimates that fees will generate \$105,000 in General Fund revenue in FY 2005, which will only partially offset an estimated department cost of \$411,300 for a net General Fund impact of \$(306,300).

Once a stable number of renewals has been established, the JLBC Staff estimates annual General Fund revenue of \$775,000 and annual department expenditures of \$411,300 for a net gain of \$363,700. The Banking Department concurs with the bill's impact.

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Analysis

The bill's requirement for license renewal on a biennial basis will create a cycle of large revenue deposits in one year alternating with much smaller revenue deposits in the second year of each cycle. As new loan originators join the industry while others leave, the cyclical nature of revenues will eventually even out. The Banking Department estimates that there are approximately 7.75 loan originators for each of 865 mortgage brokers in Arizona, or 6,700 loan originators that would be affected by the bill. The Banking Department estimates that 350 new loan originators will be licensed each year after the program starts. Investigation of consumer complaints and loan originator compliance must be monitored every year. This will lead to expenditures being greater than revenues in some of the early years of the program.

Revenue Estimate		
	<u>FY 2004</u>	<u>FY 2005</u>
Initial Application Fee - \$250	\$1,675,000	\$ 87,500
Initial Exam Fee - \$50	335,000	17,500
Renewal Fee - \$200 Biennially	<u>0</u>	<u>0</u>
Totals	\$2,010,000	\$105,000

The bill creates new regulatory duties for the Banking Department and establishes fees to pay for increased regulatory costs. Under current statute, licensure and oversight occur for each mortgage broker regardless of the number of loan originators that may be employed. By focusing regulatory efforts on a larger number of participants in the loan process, the need for monitoring and compliance is increased. The Banking Department estimates that it will require an additional 9 FTE Positions in order to administer the program. This includes an increase of 5 FTE Positions for licensing customer services individuals, a consumer affairs examiner, a licensing/consumer affairs supervisor, an additional administrative position, and a supervision examiner. This will lead to an increased General Fund expenditure of \$315,000 for Personal Services and Employee Related Expenditures for each year of the program. There will be related increases in expenditures for file room rent, office supplies, telecommunications, postage, and office equipment of \$111,400 in FY 2004 and \$96,300 in FY 2005. The Banking Department also anticipates additional costs for administrative rulemaking, examination review, and management and examiner time in hearing and informal settlement discussions. These costs would be absorbed by the department.

Local Government Impact

None.